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**HF 676** – Vehicle Leases, Fees (LSB 2276HV)  
Analyst: Marcia Tannian (Phone: 515-281-7942) ([marcia.tannian@legis.state.ia.us](mailto:marcia.tannian@legis.state.ia.us))  
Fiscal Note Version – New  
Requested by Representative Lee Hein

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### **Description**

**House File 676** provides an exemption to the fee for new registration for vehicles leased by governmental entities and specified nonprofits. Under current law, the fee for new registration for leased vehicles is the amount equal to 5.0% of the leased price on a lease that is 12 months or longer and for a vehicle that has a gross vehicle weight rating (GVWR) less than 16,000 pounds. The lessor is responsible for payment of the fee, but typically passes the charge along to the lessee through the contract agreement for the lease. Code Section 321.105A specifies that vehicles purchased by entities listed in specific subsections of Code Section 423.3 are exempt. The list of entities is long, but includes governmental entities and specified nonprofits. Under current law, the exemption applies only to the purchase, but not the lease of vehicles. The Bill provides the equivalent exemption for the lease of vehicles by the same entities.

In addition, the Bill provides an exemption from the fee for new registration for vehicles leased to a governmental agency and titled in an individual's name in accordance with a governmental program authorized by law. An example might be the provision of a specialized vehicle for a seriously disabled veteran by the federal government in accordance with United States Code. Under current law, an exemption from the fee for new registration is provided under Code Section 321.105A for the purchase of vehicles under the same situation.

### **Background**

The fee for new registration was established in Senate File 2420 (TIME-21 Transportation Funding Act) during the 2008 Legislative Session. The fee for new registration is a one-time registration fee equal to 5.0% of the sales or lease price of motor vehicles. Generally, the fee for new registration is paid each time ownership of a vehicle is transferred. The fee for new registration replaced the equivalent "use tax" on those vehicles and is constitutionally protected to be used for roads under Article VII of the Iowa Constitution. The revenue from the fee for new registration is deposited in the Road Use Tax Fund in accordance with Code Section 312.1. Counties retain \$1.00 on each fee for new registration and the revenue is deposited in the county general funds in accordance with Code Section 321.152. Revenue from the fee for new registration depositing in the Road Use Tax Fund for FY 2010 was \$241.7 million. Of that amount, \$7.9 million (3.3%) was generated from leased vehicles that are registered as leased. The counties retained \$10,324 in their general funds from those leased vehicles.

### **Current Situation**

#### ***Department of Transportation Database:***

The Department of Transportation (DOT) notes that in its database of vehicle registrations totaling more than 4.1 million vehicles, there are 41,690 that are registered as leased vehicles. Code Section 321.10 requires lessee information to be listed on a vehicle record if the vehicle being leased is less than 10,000 pounds GVWR. There is an exemption for vehicles over 10,000 pounds, so the number in the DOT database does not reflect all vehicles leased that

would fit within the exemption in the Bill. Furthermore, the DOT database is unable to provide how many of the lessees are governmental entities or nonprofits.

### ***Governmental Entities:***

At the State level, long-term leasing is rare. Most of the vehicles in the State fleet are owned by the agencies. The few that are leased by the State (noted in the following table) are provided by federal grants from the Office of National Drug Control Policy. The grants require vehicles to be leased rather than owned. An informal query of several cities and counties indicates that local authorities lean towards owning vehicles rather than leasing. These purchases are exempt from the fee. The following table provides the number of vehicles owned and leased by State agencies and certain cities and counties.

<b>Governmental Entity</b>	<b>Vehicles in Fleet</b>	
	<b>Number Owned</b>	<b>Number Leased</b>
State - Board of Regents (three universities, all vehicles)	1,484	0
State - Department of Administrative Services (passenger fleet only)	1,155	5
State - Department of Transportation (light fleet only)	1,250	0
City - Cedar Rapids	620	0
City - Davenport	600	0
City - Des Moines (passenger fleet only)	822	0
County - Dubuque (passenger vehicles only)	26	2
County - Johnson	201	23 buses

Counties that report owning but not leasing vehicles include Woodbury, Story, and Dallas. Black Hawk County leases two motorcycles for the Sheriff's Office, but no other vehicles. Johnson County leases 23 buses for the elderly and those living with disabilities. Depending on the size of the buses, they are likely exempt from the fee for new registration (if greater than 16,000 pounds GVWR).

In addition, an informal query to the school districts indicates that an estimated 90.0% of the school vehicles Statewide are owned rather than leased. The purchase of these vehicles is exempt from the fee.

### ***Nonprofits:***

Due to insufficient information, it is unknown whether the specified nonprofits that are exempt from the fee decide to own or lease. A sampling of information, however, indicated that nonprofits appear to follow the pattern of governmental entities and purchase rather than lease, if the entity obtains vehicles. It is likely that many nonprofits do not own fleets, but reimburse mileage expenses for private vehicles instead.

- According to Enterprise Rent-A-Car Fleet Management (for leases that are 12 months or longer), nonprofits represent approximately 5.0% to 10.0% of their leased vehicle fleet clients in Iowa. Generally, these are larger nonprofit entities with approximately 75 to several hundred employees. According to Enterprise, an average of 55 new vehicles are delivered annually to nonprofit clients in Iowa at an average delivered cost of approximately \$15,000. The estimated average annual revenue from the fee for new registration generated from these nonprofits is approximately \$41,250. The county general funds earn an estimated \$55.00, in total, annually from the 55 vehicles paying the fee for new

registration. It is unknown if the nonprofits cited by the company would be eligible for the exemption.

- An informal survey of 11 nonprofit members of the Coalition for Family and Children's Services in Iowa, indicated a total of 197 vehicles are owned and 21 are leased. The leased vehicles represent 9.6% of the total fleet for these nonprofits. It is unknown if these nonprofits meet the exemption requirements for the fee for new registration, but based on the types of services provided it is likely that many do.

### **Fiscal Impact**

There is no impact to the State General Fund.

The fiscal impact to other funds cannot be determined due to insufficient information because the total number of vehicles leased rather than purchased by the specified nonprofits or governmental entities is unknown. Also, the number of individuals that have a vehicle purchased for them by governmental entities is unknown. Any loss of revenue would be a loss to the Road Use Tax Fund and county general funds.

While the information gathered is not dispositive, it generally indicates that the entities are not paying the fee for new registration because they are purchasing under the existing exemption rather than leasing. Therefore, based on the information gathered and the indications from the current patterns related to purchasing versus leasing for the governmental agencies and nonprofits, the anticipated impact to the Road Use Tax Fund and the county general funds is expected to be minimal.

### **Sources**

Department of Transportation  
Department of Administrative Services  
Department of Public Safety  
Board of Regents  
Cities: Cedar Rapids, Des Moines, and Davenport  
Counties: Woodbury, Johnson, Black Hawk, Dubuque, Story, and Dallas  
Iowa School Districts  
Enterprise Rent-A-Car  
Members of the Coalition for Family and Children's Services in Iowa

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The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the correctional and minority impact statements were prepared pursuant to Code [Section 2.56](#). Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

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